

News



ROYAL VISIT: Prince Charles, with Primary Industries Minister David Carter, right, during his visit to John and Diny Dermer's Waipiko farm at Cheltenham, north of Feilding, where he enjoyed a cup of tea and tour of the wetlands and farm forestry. Photo: Hagen Hopkins/Getty Images

Prince got in plug for wool

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Deer farming, wool prices and the financial wellbeing of New Zealand farmers were the topics of conversation as His Royal Highness The Prince of Wales toured Feilding's Farmers Market last Thursday.

Feilding's central square was bursting with thousands of locals keen to catch a glimpse of Prince Charles and Her Royal Highness the Duchess of Cornwall as they entered the town's Farmers Market to meet local agribusiness leaders and farmers.

Prince Charles was keen to hear details of NZ's deer farming sector after observing several deer farms on his trip north from Wellington to Feilding earlier that morning.

Local venison and lamb processor plant owner John Signal responded to the Prince's questions on the age deer were processed in NZ and also what other products were exported apart from venison.

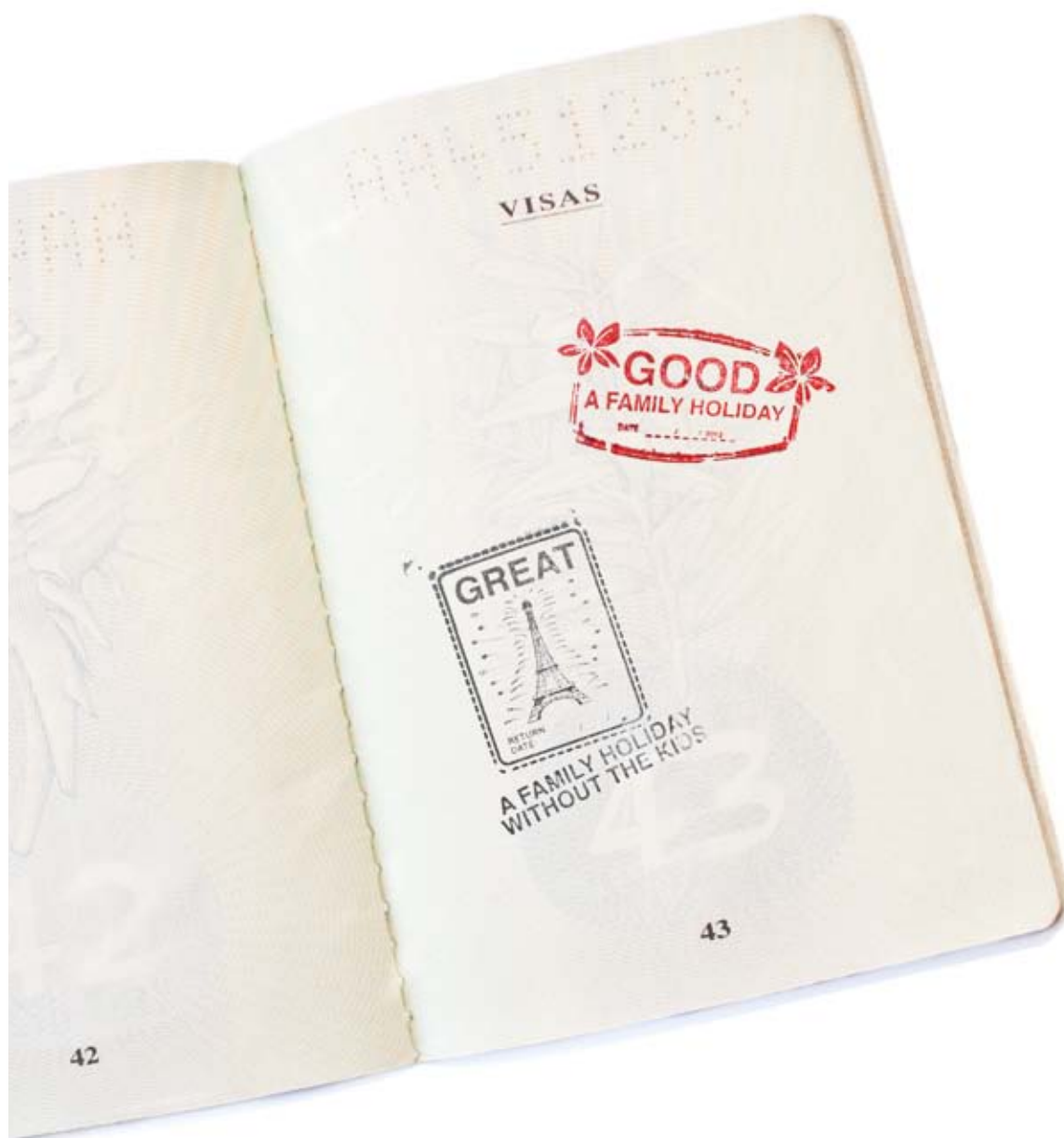
Earlier the Prince, who is patron of the global Campaign for Wool, commented on the weak and volatile prices for wool and added he was "doing what I can" to support demand creation for the fibre he described in glowing terms.

"It's an amazing fibre. It's sustainable, fire retardant, it's natural. It's just got so much going for it, yet demand globally is not strong enough," he said.

The Prince also queried how strong returns to farmers were in NZ before heading into the Farmers Market to sample some of the local fare.

The royal couple were also treated to entertainment from local dance groups and given a shearing demonstration.

Camilla later visited the Massey University veterinary teaching centre and watched students riding their horses, following a brief visit to the university's equine research unit, while Charles visited the Cheltenham farm of John and Diny Dermer.



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DNA proving causes earnings dip

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Compensation paid to early adopting farmers of LIC's DNA Proven genomics has largely contributed to a dip in net earnings in the last financial year.

At the LIC AGM the underlying net earnings were outlined at \$15 million, down 15% from \$17.6m last year, despite revenues increasing by 7% to \$177m for the 2011-12 financial year.

LIC chief executive Mark Dewdney said both the EBIT and underlying earnings included \$4.7m paid to the early adopters of the DNA Proven product, outlining the hit LIC has taken over the poorer performing genetics.

DNA proven payments aside, LIC had a successful year, with an increase in all sales, including growth in herd test samples and semen sales.

Herd test samples went up to 10.9m from 10.1m samples last year – a \$2m increase to \$25.5m in

revenue. Total semen sales of 3.85m straws were up from 3.70m straws, another \$2m increase to \$71m in revenue. Farm automation revenue was up \$4.4m to \$13.4m and farm software revenue was also \$2m up to \$36.4m.

Dewdney said every dollar collected by LIC is either reinvested in the business or paid back to New Zealand farmer shareholders as dividends. LIC paid a total dividend to shareholders of just under \$12m, down from \$13.6m paid in 2011.

LIC spent \$18.4m in capital expenditure during the year and will continue this level of investment in the co-operative.

"We expect to invest between \$25 - \$35m per annum for the next several years in assorted capital development and major project initiatives."

One area of investment that was debated at the AGM was LIC's \$10m loan to support Agria Singapore taking control of PGW. The loan was due to be repaid by October 31, 2012, however it has now been



Mark Dewdney: Genomics not standing up to expectations.

extended to April 2014.

Dewdney insisted Agria had not defaulted on the loan and had paid all interest due. The loan was renegotiated with ANZ, who lent \$53m to Agria, and as the subordinated lender, LIC was required to do the same.

Dewdney said the rationale behind the loan remained that LIC wanted to be in a good position to invest in a potential separate AgriTech

business which would provide a platform to improve grass species in NZ to ensure farmers can fully feed elite animals.

Despite some shortcomings with genomics, LIC will also continue to invest in this technology Dewdney said, although after many years of heavy investment annual genomic spend levels are stabilising.

"We need to stay the course with this technology. We'll look back in a decade and it will be mainstream technology then. Genomics is going to be the key."

Dewdney said while genomics had already improved LIC's genetic programme, it was not as much as expected, with the company facing issues of over-predicting the genetic merit of sires.

Selecting bulls based on genomic DNA, as opposed to the longer track of traditional daughter proven BWs, continues to be a challenge for LIC.

Dewdney told shareholders the results from DNA Proven genomics this year had not been as encouraging as last year. The gap

between predicted genomic BWs and daughter proven BWs still existed, and was greatest in the Jersey breed.

This year's DNA Proven Jersey sires were genomically predicted to have a BW of 181 in LIC's bull team, but daughter proofs were 157, a 15% departure.

"There is a top end bias causing over prediction, and it is turning out to be greater than we predicted it to be," Dewdney said.

Dr Richard Spelman, LIC manager for research and development, said this problem was not unique to NZ.

"In the United States they have genotyped 20,000 bulls and tens of thousands of cows and continue to get it."

He attributed part of the problem to genomics' relative infancy with only 10 years of research behind it, compared to almost half a century for traditional sire proving.

MORE:
DATABASE

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LIC chairman stands firm on 'no compo' line on genetic defect

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LIC's chairman Murray King stands by the decision not to pay compensation on a genetic defect, given the risk that brings for future claim exposure.

King used LIC's AGM as an opportunity to recount how the mutation sprang through some of the calf population, and provided farmers the chance to challenge it.

"This is the forum for that to happen, and as we have seen today, no-one has come out raising it as an issue," King said.

Despite the muted response at the meeting the co-operative has had a Commerce Commission complaint lodged against it by South Taranaki farmer Geoff Butler. Butler is challenging claims made by LIC about Matrix, the bull carrying the defective genetics.

A Commerce Commission spokeswoman confirmed it had received one complaint against LIC, but could not say when a decision would be made on whether to investigate it.

Butler maintains LIC falsely advertised the bull in its DNA Proven team and believes the co-operative has breached the Fair Trading Act.

"They tell me this was a one off and would not happen again, so why not just pay compensation, or are they concerned about something else happening in the future?" Butler said.

He was awaiting the commission's decision before deciding whether to take the issue further.

Other affected farmers included heifer rearer and exporter Roger Blunt of Karapiro and farmer Craig Littin of South Waikato.

Blunt estimated he was out of pocket to the tune of \$15,000,

having five animals visibly affected and another three with the gene.

He had withheld these animals from an intended Chinese export order once he discovered they had the gene.

Littin said he had reviewed what company he would use in future to supply his genetics and intended to await the outcome of any Commerce Commission investigation.

Addressing the 100 strong crowd of shareholders, King described the incident that saw heifers coming through this season with the mutated gene as challenging.

"This was one of the more challenging issues that I ever recall our board having to deal with.

"We do not guarantee against genetic defects and could never provide a guarantee against something that only nature controls," King said.

There was no genetics company

in the world he was aware of that provided a guarantee against genetic defects.

The vexed issue of compensation was acknowledged by King as an area fraught with difficulty.

"Several people have commented we handled this poorly at the start, and were not quick enough or proactive enough.

"Maybe we could have noted a potential concern earlier but there were risks with that."

The decision by the co-operative to pay \$4.7 million to early adopter farmers affected by reduced genetic performance from the DNA Proven genomic product has already meant LIC's bottom line has taken a hit from compensation.

Estimates are 12,300 cows held to inseminations from Matrix in 2010, and this resulted in 3500 heifer calves born into the national herd last spring.

Legal opinion sought by *The New*

Zealand Farmers Weekly indicated compensation claims could have been sought around losses incurred by the genetics, despite a tight service agreement between the LIC and farmer clients.

King noted the issue of compensation had been intensely debated at a board level.

"I know our position has not been accepted as correct by all quarters."

But LIC directors felt that exposing the co-operative to open-ended future compensation claims for individual or widespread genetic defects was not something they could do.

King was aware of the depth of feeling that existed over the issue, acknowledging it had damaged LIC's relationship and reputation with some farmers.

"All we can do now is to focus on assisting farmers manage their individual situation and rebuild our relationships."



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